



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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April 26, 2005

Chairman Greenspan Endorses Democratic Budget Principles

Urges Reinstatement of Pay-As-You-Go Rules, Warns Big Deficits Are Unsustainable

Dear Democratic Colleague:

Last Thursday, Federal Reserve Chairman Alan Greenspan appeared before the Senate Budget Committee. In the course of his testimony, he endorsed two important principles that Democrats embrace: the Pay-As-You-Go (PAYGO) rules are a vital piece of budget discipline and should be renewed; and the huge deficits racked up by Republican policies are harmful and could damage the economy.

The Importance of Pay-As-You-Go

Chairman Greenspan: "One of the real problems we had was allowing PAYGO to lapse in September 2002."

Senator Corzine: "Do you think PAYGO rules should include both tax and spending decisions?"

Chairman Greenspan: "I do, Senator."

Chairman Greenspan: "Well, if PAYGO were in place all through this period you would not have had the types of problems to which you're referring."

Democrats have fought hard for extension of the PAYGO rules, while Republicans have allowed all of the budget process measures in effect in the 1990s to expire. These budget rules were instrumental in providing the discipline that helped turn large structural deficits into surpluses. Last June, Republicans brought several ill-conceived budget process reform measures to the House floor. The Republican proposal to require that new spending be offset, but not new tax cuts, was an ineffective idea. Because Republicans were unwilling to compromise, the opportunity to enact meaningful, bipartisan budget process reform was squandered; instead, every major proposal was rejected, including a return to the budget rules that worked throughout the 1990s.

Deficits Matter and, If Left Unchecked, the Economy Could Suffer

Chairman Greenspan: "The federal budget deficit is on an unsustainable path, in which large deficits result in rising interest rates and ever-growing interest payments that augment deficits in future years . . . Unless this trend is reversed, at some point these deficits would cause the economy to stagnate or worse."

Republican policies have led to the highest deficits in history: a record \$412 billion in 2004, breaking the previous record of \$378 billion set in 2003. The Congressional Budget Office (CBO) projected in March that the 2005 deficit will be \$365 billion, but that number does not factor in the more than \$80 billion of supplemental appropriations that are likely to be enacted in the coming weeks. The Administration's latest estimates peg the 2005 deficit at \$427 billion, another new record.

There is one component of government spending that benefits no one but must be paid: interest on the national debt. This spending represents the ultimate wasteful government expenditure, is non-negotiable, and is growing each year. The only way to rein in this unwanted expense is to balance the budget, which the Democrats accomplished in the 1990s with hard work and tough choices.

Rather than provide a plan to reverse this pattern of record deficits, Republicans rely on the same failed prescription: more tax cuts. While imposing devastating cuts to programs that protect the vulnerable, such as Medicaid and food stamps, Republican budgets endorse tax cuts that primarily benefit the most fortunate and cost trillions of dollars over the next ten years. But even with these large cuts to key services, Republican budgets fail to achieve balance or chart a course toward fiscal responsibility.

Republican Budget At Odds With Greenspan's Views

House Democrats presented a better plan. The 2006 Democratic budget included strong budget discipline, including extension of the PAYGO rules, and reached balance by 2012. I am pleased that Chairman Greenspan supports the fiscal goals embodied in the Democratic budget.

This week, the House is expected to consider the 2006 budget resolution conference report. It will contain the same flaws as the House, Senate, and Bush budgets – large tax cuts, record deficits, and painful spending cuts that do little to improve the bottom line. The House should follow Chairman Greenspan's advice by rejecting the conference report and by passing instead a fiscally responsible plan like the one offered by House Democrats.

Sincerely,

A handwritten signature in black ink, reading "John Spratt". The signature is stylized with a large, sweeping "J" and a cursive "Spratt".

John M. Spratt, Jr.
Ranking Democratic Member